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## Agenda Item 5

June 13, 2011

### TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. **SUBJECT:** Adoption of Policy for the Infrastructure Program – Attachment to Real Assets Policy
- II. **PROGRAM:** Infrastructure
- III. **RECOMMENDATION:** Recommend to the Investment Committee Adoption of the Proposed Changes to the Infrastructure Program Policy

### IV. ANALYSIS:

In December 2010, the Investment Committee (Committee) approved an alternative asset classification as part of the overall Strategic Asset Allocation process. The approved classification called for the creation of a new Real Assets class comprised of the Real Estate program, and the Infrastructure and Forestland programs from the Inflation-Linked Asset Class.

As part of the consolidation process, in May 2011 the Committee approved a single, overarching Real Assets Policy with attachments for the investment programs, including Infrastructure, and a repeal of existing policies related to the Inflation-Linked Asset Class, which previously included Infrastructure.

In April 2011, the Committee approved a new Strategic Plan for Infrastructure. Staff has revised the Infrastructure Program Policy ("Policy") to reflect the approved new Infrastructure Strategic Plan as approved by the Committee, as well as to reflect the provisions of the Real Assets Policy.

Staff consulted with the Investment Strategy Group and CalPERS Legal office regarding the proposed Policy changes. The General Pension Consultant, Wilshire, and the Infrastructure Consultant, Meketa Investment Group, have reviewed the proposed Policy changes and opinion letters are included in attachments as listed below.

#### List of Attachments

- Attachment 1 - Proposed Infrastructure Program Policy
- Attachment 2 - Wilshire Associates Opinion Letter

- Attachment 3 - Meketa Opinion Letter

**Summary of Proposed Additions or Changes**

- 1. The following are changes to the Infrastructure Program Policy, an attachment to the Real Assets Policy (approved May 2011).**
  - A. Outline and Format.** Policy structure and format revised consistent with Real Assets Policy and other attachments.
  - B. Strategic Objectives and Role.** Revised to reflect objectives and role consistent with the Infrastructure Strategic Plan approved by Committee.
  - C. Role of Consultants.** Updated to reflect revised role per Policy Subcommittee ("PSC") February 2011 Information Agenda Item 3, and concurrent PSC April 2011 Action Agenda Item 5.
  - D. Benchmark.** Deletion of benchmark details from the Policy and addition of a reference to Benchmark Details Policy.
  - E. Strategic Planning.** Addition of provisions calling for a Strategic Plan requiring Committee approval on a minimum five-year basis, and annual reviews of such plans with the Committee.
  - F. Risk Classification Nomenclature.** New nomenclature for risk classifications (Defensive; Defensive Plus; Extended) per Strategic Plan approved by the Committee.
  - G. Diversification and Limits.** Changes as approved in the Strategic Plan to weight the Program more towards lower risk and domestic investment by changing allocation ranges for Risk and Geographic Segments, respectively. Clarification as to the application of Risk and Geographic limits while Program investment is ramping up toward its target allocation.
  - H. Quality Control.** Aligning quality control processes and guidelines for procedures with other Real Assets programs.
  - I. Calculations and Computations.** Clarifying fair market value basis for performance reporting. Sections related to reporting reorganized and consolidated under Section III - Responsibilities.

- J. Investment Structures. Changes for clarification and consistency of terminology in definitions of investment structures (no substantive changes in types of investments allowed.)
- K. Responsible Contractor Policy and Preference. No substantive changes; minor editorial changes only.
- L. Investment Selection. Language added to align investment process with other Real Assets processes and to incorporate requirements consistent with the Policy for the Role of Private Asset Class Board Consultants.
- M. Leverage. Changes consistent with the Strategic Plan approved by the Committee, including: a program average leverage limit of 65%; a leverage limit for individual commingled fund investments of 65% of market value; a requirement that new direct investments with leverage exceeding 50% have a minimum credit quality rating of BBB-/Baa3 and a Defensive or Defensive Plus risk classification; and a requirement for new debt investments of a minimum credit quality rating of BB/Ba2.

### **Implementation Timeline**

The Policy will be implemented upon adoption by the Committee.

### **Board Infrastructure Consultant Review**

Meketa Investment Group has reviewed and concurs with Staff's recommendation. Meketa will be available at the Committee meeting to answer any questions Committee members may have regarding the proposed policy.

## **V. STRATEGIC PLAN:**

The proposed Real Assets policy will further the following CalPERS Strategic Plan goals:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

**VI. RESULTS/COSTS:**

At this time the Investment Office does not anticipate any additional cost needed to implement the proposed Real Assets policy

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